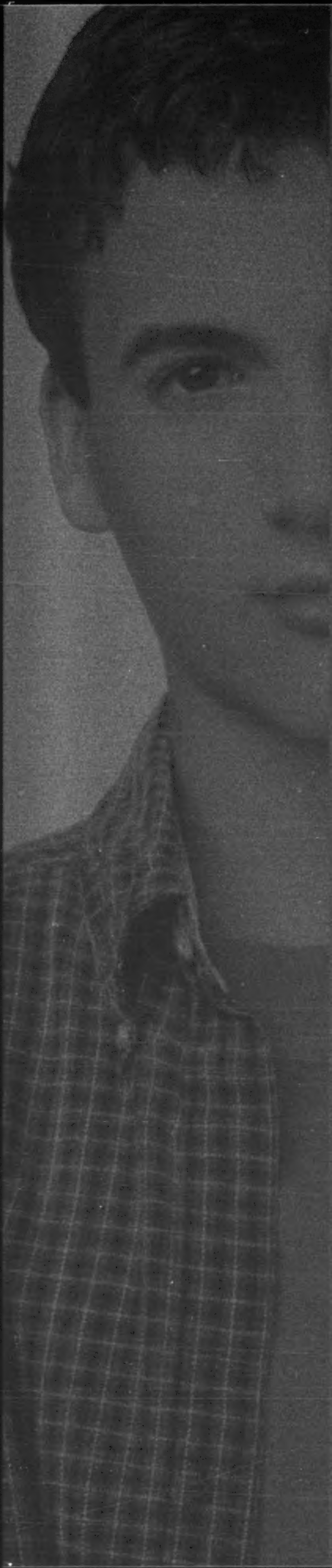


CPP INVESTMENT BOARD

ANNUAL REPORT 2001

Fiscal year ended March 31, 2001

Helping to keep the long-term pension promise to younger Canadians

CANADA PENSION PLAN INVESTMENT BOARD

PROFILE

The CPP Investment Board was created by an Act of Parliament in December 1997 to invest funds not required by the Canada Pension Plan to pay current pensions. By March 31, 2001, we had $7.2 billion invested in Canadian and foreign equities and by 2011 we expect to be managing at least $130 billion in a diversified investment portfolio.

The CPP Investment Board is governed by a board of directors with extensive business, investment and financial expertise, and is managed by investment and business professionals from the private sector.

We operate independently of the Canada Pension Plan and at arm's length from the federal and provincial governments.

CONTENTS

CPP
INVESTMENT
BOARD

VISION

Earn the confidence of Canadians that we are working for them to help the Canada Pension Plan to keep its pension promise.

MISSION

- Invest in the best interests of CPP contributors and beneficiaries.
- Maximize long-term investment returns without undue risk of loss, having regard for the obligations and assets of the Canada Pension Plan.
- Tell our story to Canadians.

LONG-TERM OBJECTIVES

- Contribute to the financial strength of the Canada Pension Plan.
- Earn returns that fairly compensate for the risks taken and costs incurred (i.e. risk-adjusted net value added).
- Manage the CPP Investment Board professionally and cost effectively.
- Help Canadians to understand what we are doing.

FISCAL 2001 OBJECTIVES	STATUS
Complete the recruitment of the senior management team.	Substantially complete.
Develop a comprehensive risk management framework.	Approved by the board of directors. See page 9.
Review asset allocation policy and develop investment strategy alternatives.	Approved by the board of directors. See page 12.
Enhance benchmarking and performance measurement capabilities.	Approved by the board of directors. See page 17.
Complete program of public reporting meetings across Canada.	Completed in January 2001. See page 2.

FISCAL 2002 OBJECTIVES

Implement investment risk management framework.

Diversify portfolio investment activities, including introduction of active management.

Control our costs as we expand operations and diversify investment activities.

Redesign and expand the Web site as our primary medium of public communications.

REPORT FROM THE CHAIR

A highlight of our second fiscal year was a series of public meetings at which President John MacNaughton and I discussed the progress of the CPP Investment Board with Canadians interested in our activities. Our legislation requires us to hold a public meeting at least every two years in each of the nine provinces that participate in the Canada Pension Plan. Meetings were held in January 2001 in Fredericton, Charlottetown, Halifax, St. John's, Winnipeg, Regina, Edmonton, Victoria and Toronto.

REACHING OUT TO CANADIANS

In addition to the public meetings, one of which was broadcast several times by a national television service, we engaged Canadians through open line radio shows, meetings with newspaper editorial boards and informal stakeholder get-togethers.

GAIL COOK-BENNETT CHAIRED OUR FIRST SERIES OF PUBLIC MEETINGS ACROSS CANADA IN JANUARY 2001.

The informal stakeholder meetings included pension fund portfolio managers, professionals and business executives, and pensioners at sessions in Atlantic Canada; university students, union leaders and anti-poverty advocates in Western Canada; and financial planners in Central Canada. As the public meetings were held in provincial capitals, we also discussed our progress with provincial finance ministers and their staff responsible for the Canada Pension Plan.

LISTENING TO CANADIANS

A number of issues emerged during these meetings:

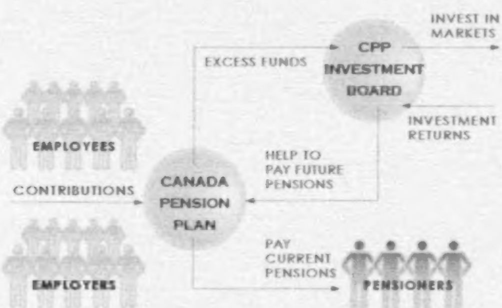
- Canadians wondered if we are independent from governments in making investment decisions.
  We assured them that we are. Legislation requires the CPP Investment Board to be governed by an independent and qualified board of directors. We in turn have hired investment professionals from the private sector.
- Younger Canadians wondered if the Canada pension would be there when they retire. The federal Chief Actuary has projected that CPP contributions will exceed benefits until 2021. After that, contributions plus investment income will pay benefits. Our efforts will be especially important in helping to pay the pensions of younger workers who are decades away from retirement.

- Canadians were curious to know the expertise of the organization.
  We shared the credentials and experience of our president and executives hired to date, and the business and financial expertise of our board of directors.
- Some people wondered why we invest solely in equities.
  One reason is to complement the large bond portfolio owned by the Canada Pension Plan. Another reason is our long investment horizon, which should give equities time to show superior performance, despite periodic stock market downturns as occurred in fiscal 2001.

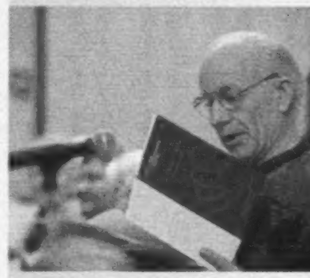
A DISTINCTIVE CROWN CORPORATION

In December 2000, the Auditor General of Canada issued an important report on the governance of crown corporations. He found that the boards of many crown corporations lack key skills and capabilities and have ineffective audit committees.

OUR RELATIONSHIP TO THE CANADA PENSION PLAN



The federal and provincial governments legislated that a preponderance of our directors have financial and business expertise and mandated a new nominating procedure to identify qualified directors. As a result, we were able to select a chartered accountant, an actuary, a retired bank executive, and a valuation specialist for the audit committee. In turn, they encouraged the development of an enterprise-wide framework to manage, assess and monitor risks.



ACKNOWLEDGEMENTS

To three outstanding founding directors, Susan Carnell, Richard McAloney and Pierre Michaud, my sincere gratitude for their commitment and judgment in our formative stages. To Gilbert Gill, Monique Leroux and Helen Sinclair, a warm welcome to the board of directors. To John MacNaughton and his staff, our appreciation for developing strategies that will shape the direction of the CPP Investment Board for many years to come.

Gail Cook-Bennett

GAIL COOK-BENNETT
Chairperson

REPORT FROM THE PRESIDENT

Our second full fiscal year saw substantive progress on many fronts. Our concept of a virtual corporation, led by a small team of experienced investment professionals, gained definition as we recruited key executives. We developed our strategic plan and investment management framework to provide context and cohesion for all our activities. We moved from solely passive to partially active investing. And we took our story on the road to communicate with Canadians.

While these developments were going on, we invested $5.6 billion in stock markets, which performed well in the first half of fiscal 2001 before declining sharply in the second half. As a result, we incurred a fiscal-year loss.

JOHN A. MACNAUGHTON PARTICIPATED IN RADIO SHOWS, MEDIA INTERVIEWS AND INFORMAL STAKEHOLDER GET-TOGETHERS AS PART OF OUR PUBLIC MEETINGS TOUR.

BUILDING OUR VIRTUAL CORPORATION

Our notion of a virtual corporation envisages a lean and cost-effective organization. Our small team of executives and their managers will develop strategies and establish partner-like relationships with external professionals to manage our assets and increase their long-term value. However, we will consider building internal capabilities if better results net of costs can be achieved.

The key building blocks of our virtual corporation are almost in place. Most of our executives have been recruited and other specialized professionals and staff are on board, bringing our team to 15 at year end. We anticipate a staff of approximately 30 people by the end of fiscal 2002.

We have the knowledge and experience to drive the CPP Investment Board forward with vigor and confidence.

OUR STRATEGIC PLAN

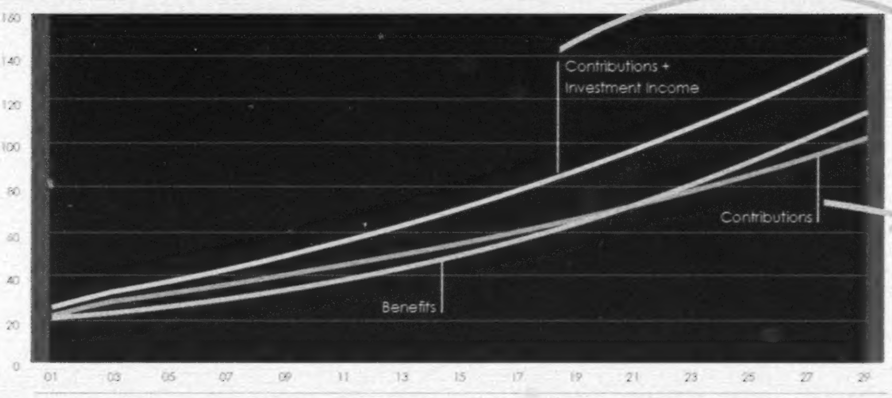
The development of our strategic plan was a major accomplishment in fiscal 2001. A key component is the investment management framework that is the intellectual link between our vision, mission and objectives and our strategies for advancing them.

One of our challenges is to earn at least the rate of return assumed by the Chief Actuary for the assets we manage. If we do that consistently, we will make a positive contribution to the Canada Pension Plan in the decades ahead.

The actuarial assumption is a 4 percent real rate of return (4 percent above inflation), a rate no assets currently guarantee. The closest are federal government real-return bonds that yielded 3.5 percent above inflation at the end of March 2001. If that is the best that a risk-free asset can offer, then obviously we will have to assume risk to maximize returns to the level required. Balancing risks and rewards is central to our work.

The Chief Actuary has projected that contributions by workers and employers will exceed Canada Pension Plan benefit payments to pensioners until 2021. The growth in assets we create by investing the annual excess over the next 20 years, and the annual investment income those assets generate, should more than compensate for the shortfall between contributions and benefit payments for decades after 2021.

HELPING TO PAY FUTURE PENSION BENEFITS
($ billions)



Assure long-term CPP financial viability.

Contributions alone will exceed benefit payments until 2021.

With such a distant investment horizon, we can afford to be patient and assume risk by investing in assets that may produce negative returns from time to time, but will generate positive results over the long term. The assets with the best risk/reward profile for our purposes are equities.

Risk is a double-edged sword. The more risk we take on to earn superior long-term returns, the higher the potential loss in the short term. Our objective is to generate risk-adjusted net value added, that is returns after costs that are appropriate to compensate for the risks taken.

THE MOVE FROM PASSIVE TO PARTIALLY ACTIVE INVESTING

Since making our first investment in March 1999, we have invested solely in equities to balance the large bond portfolio and cash reserves owned by the Canada Pension Plan.

Our Canadian equity investing is governed by federal regulation. During our first 18 months, we could only invest passively in index funds. (Outside Canada, we could invest actively or passively and so far have decided to invest passively in equity index funds). The Canadian equity restriction worked well in our first fiscal year, when the TSE 300 index ranked among the top performers in the world.

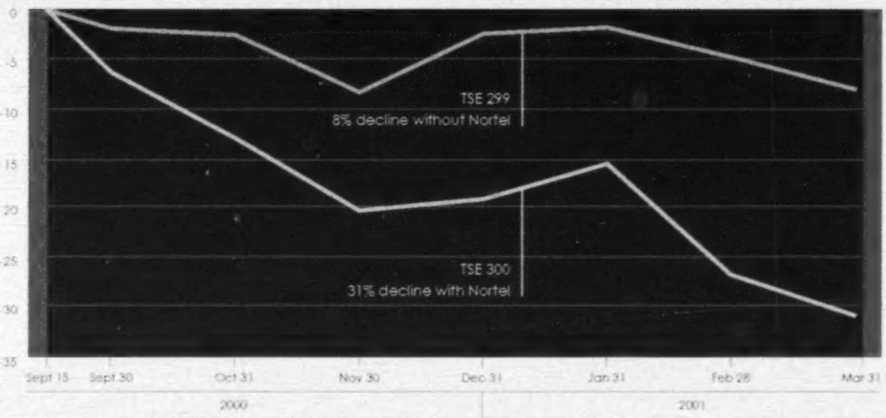
In August 2000, the regulation was relaxed to allow up to 50 percent of the capital allocated to Canadian equities to be actively managed. We made our first active decision soon after the regulatory change became effective. Our goal was to reduce our exposure to Nortel Networks, a stock that represented 35 percent of the TSE 300 Index at the time and about 28 percent of our total assets. That level of concentration in a single stock carried far too much risk, no matter how good the company.

In essence, we divided our Canadian equities effective September 15 between the TSE 300 fund and a fund of the TSE 300 excluding Nortel. The difference in performance through the remainder of the year was startling, as the following chart illustrates. This initiative avoided $535 million in losses that would otherwise have occurred and reduced our largest concentration in a single security to approximately 4 percent by year end.

Our first active investment decision avoided $535 million in losses – the difference between the TSE 299 and TSE 300 performance.

MANAGING RISK REDUCED LOSSES

(% cumulative nominal decline)



2001 INVESTMENT PERFORMANCE

The $5.6 billion we received in fiscal 2001 from the Canada Pension Plan was invested in Canadian and foreign equities. By year end, we had $7.2 billion in assets under management, of which 70 percent was invested in Canada and 30 percent in the United States, Europe and Asia.

Stock markets around the world finally corrected mid-way through our fiscal year after the longest and strongest rise in history. In fact, between September 2000 and March 2001 they experienced the worst six-month declines since 1974. For our full fiscal year, the markets in which we invested declined by 17.8 percent. By contrast, we ended the year with a negative total portfolio return of 9.4 percent for an $852 million net loss.

The $42 billion (at estimated market value) portfolio of bonds and money-market securities owned by the Canada Pension Plan earned approximately $3.8 billion in fiscal 2001. On a consolidated basis, the equity and fixed-income assets available to the Canada Pension Plan produced a positive return of approximately 7 percent.

Our results are discussed in the Investment Performance section of this report beginning on page 15.

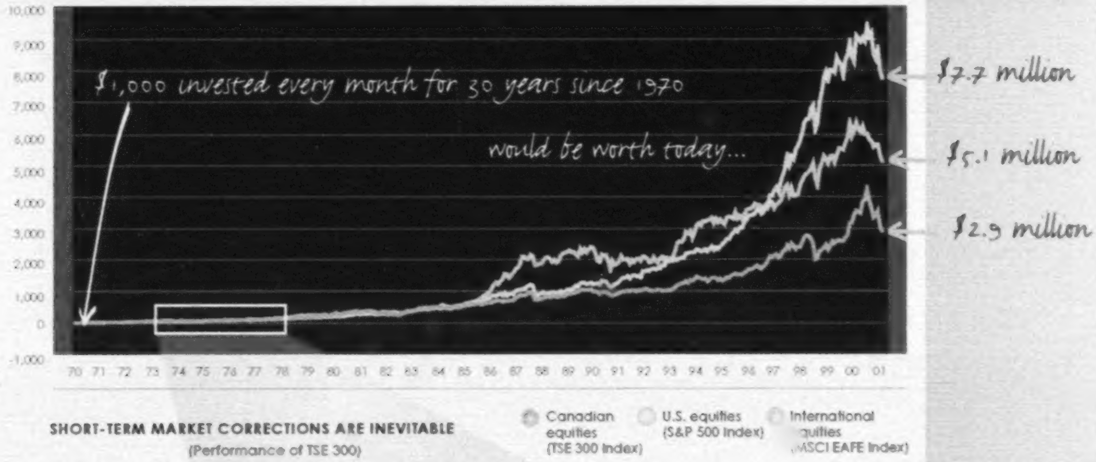
BUYING OPPORTUNITIES

Few investors take joy in declining markets. We were in the fortunate position of being able to put large and frequent cash inflows to work at more advantageous prices as the year progressed and acquire more shares for the same amount of money. This dollar cost averaging put us in a stronger position to benefit when markets recover. As a patient long-term investor we are not deterred by the severity of the recent market downturn that affected our short-term results.

Corrections followed by recoveries are the natural behaviour of equity markets, with five major corrections in the past 30 years. In 1973-74, for example, the TSE 300 Index declined steeply and took more than five years to fully recover, as the following chart

illustrates. Yet capital invested over the long-term grows at a compounded rate that more than compensates for a market correction even as harsh and as long as the one in 1973-74. We will see many more major corrections followed by recoveries as we invest to maximize our long-term returns.

LONG-TERM REGULAR INVESTING PAYS OFF
($ thousands)



SHORT-TERM MARKET CORRECTIONS ARE INEVITABLE
(Performance of TSE 300)

LOOKING AHEAD

So far we have invested only in publicly traded equities. In fiscal 2002, we will expand into private market investments. Over long time periods, private equity returns, particularly from merchant banking and venture capital, can be substantially higher than public equity returns. Private market investments fit well with our goal of long-term patient growth.

Initially, we plan to participate in private markets through limited partnerships or pooled funds by establishing ourselves as a preferred investor with a dozen or more of the best fund managers in the world. In fiscal 2002, we may commit up to $1.8 billion to private equities to be invested over five years. These investments should start to positively influence our total portfolio return toward the end of the initial five-year period. In the meantime, we will make further commitments on an annual basis. Our approach to investing in private market investments is discussed further on page 13.

Federal and provincial finance ministers are considering the removal of the remaining regulatory restrictions on our Canadian equities during fiscal 2002. This would give us the same flexibility to enhance returns and mitigate risks as other investors. However, index investing will remain a core strategy.

TELLING OUR STORY

Communicating with Canadians and other interested parties is a continuing priority. We accept our responsibility to explain to Canadians what we are doing with their money.

The public meetings held across Canada in January 2001, and discussed in the Report from the Chair, was one approach. We also communicate through our Web site and media interviews, and our executives and I make speeches and presentations throughout the year to a wide range of stakeholder audiences.

The CPP Investment Board is also attracting attention from other countries seeking solutions to their public pension challenges. Several groups from Europe, Asia and the United States have visited us. We believe we have a convincing story to share with them as well.

APPRECIATION

Thank you to my colleagues for joining the CPP Investment Board so that together we can build an effective investment organization to help secure the public pension promise.

Thank you to our directors for their support and guidance as we take on more complex and demanding investment challenges.

Thank you to Canadians who participated in our first public reporting tour in January 2001. There is nothing quite as refreshing as a citizen asking a question that cuts through the complexities and obtuse jargon of investing to get at a simple point – will we make money over the long term to help pay the Canada pension? The answer is 'yes' as will become evident with time.

JOHN A. MACNAUGHTON
President and Chief Executive Officer

INVESTMENT MANAGEMENT FRAMEWORK

We have developed an investment management framework to translate our vision, mission and objectives into effective investment strategies. The framework will enable us to manage the risks and returns in the total portfolio to generate risk-adjusted net value added – that is, returns that compensate us adequately for the risks taken and costs incurred. The framework will capitalize on a broad range of asset classes and investment activities in Canadian and foreign public and private markets through both passive and active investing.

OUR INVESTMENT OBJECTIVES

Our legislation states two objectives:

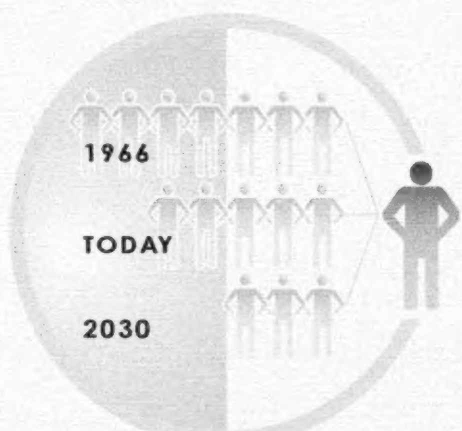
- to manage any amounts transferred from the Canada Pension Plan "in the best interests of the contributors and beneficiaries of the plan"; and
- "to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan and the ability of the Canada Pension Plan to meet its financial obligations."

We are also required to develop, and review at least annually, a formal investment policy, known as the Statement of Investment Policies, Standards and Procedures. The statement addresses asset mix policy, asset diversification, expected investment returns, liquidity, the use of derivative products, asset valuation, and the exercise of proxy voting rights attached to share ownership.

THE CANADA PENSION PLAN

The Canada Pension Plan, which is administered by the federal government, was created in 1966 as a pay-as-you-go, rather than a fully funded, pension plan. In 1996, the federal and provincial finance ministers confirmed that the plan lacked sufficient assets to meet its long-term obligations. Given demographic trends, improved life expectancy, the need for inter-generational equity, and the rising cost of benefits, the ministers agreed to build the plan to a level where assets would represent 20 percent of liabilities and five years of pension benefits by 2017.

A MATURING PENSION PLAN



The number of potential contributors is declining per pensioner.

This funding target is designed to respond to the rapid maturing of the plan with a declining number of contributors to pensioners.

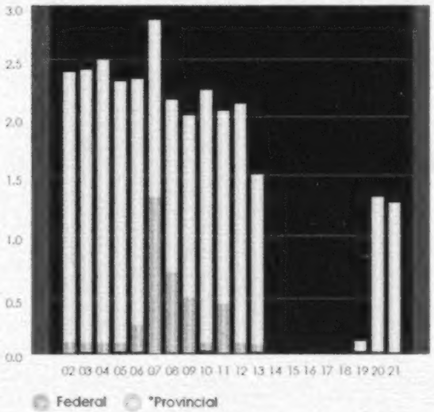
The plan's most recent actuarial report in December 1997 calculated the present value of accrued pension benefits at $465 billion. The plan's $36.5 billion in assets (valued at cost) at that time were approximately 8 percent of liabilities.

To achieve the 20 percent funding level, the finance ministers agreed to phase in contribution increases to reach 9.9 percent of pensionable earnings by 2003 and keep them at that level indefinitely.

The actuarial report assumed that excess funds not needed to pay current pensions would earn a 4 percent real rate of return (that is, above inflation) to keep the Canada Pension Plan in a steady-state funding status after 2003. With inflation projected in the actuarial report at 3 percent annually, the nominal investment objective assumed by the Chief Actuary for the CPP Investment Board is 7 percent.

The government bond portfolio and cash reserves earned approximately $3.8 billion in fiscal 2001.

GOVERNMENT BOND PORTFOLIO SUMMARY BY MATURITIES
Based on fiscal years ended March 31 ($ billions)



*Includes approximately $4 million of territorial bonds

GOVERNMENT BOND PORTFOLIO

The Canada Pension Plan owns a bond portfolio consisting of 20-year loans to the federal and provincial governments. The portfolio is managed by the Department of Finance Canada. Each province has the option to roll over its bonds for one further 20-year term and can redeem its bonds before maturity. The proceeds from bonds not rolled over or redeemed are transferred to the CPP Investment Board, unless needed by the Canada Pension Plan. In fiscal 2001, $2.0 billion of bonds matured and $1.3 billion was renewed for a further 20 years.

ADDRESSING RISK/REWARD TRADEOFFS

In developing our investment management framework, we analyzed risk/return tradeoffs by identifying our risk-free performance base, risk tolerance, and long-term required return.

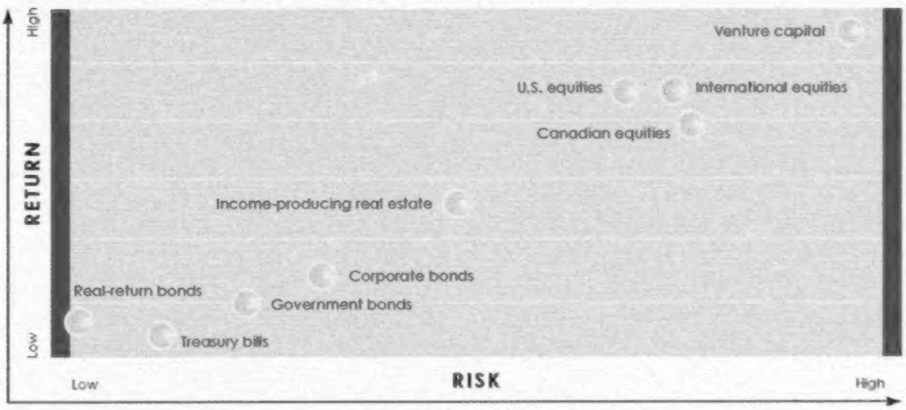
Because Canada Pension Plan benefits are indexed to inflation, an asset that is risk-free with respect to inflation, such as real-return bonds, would be ideal if it paid the rate of return needed to keep the plan in a "steady state" funding position. An index of such risk-free assets is an ideal base from which to measure the incremental return we ought to generate for the extra risk taken. Such an index exists: the Scotia Capital Real Return Bond Index.

But what should be our risk tolerance? Many Canadians are not comfortable with the CPP Investment Board assuming "too much" risk. On the other hand, our 20-year investment horizon and large cash inflows from the Canada Pension Plan mean we can assume higher risk than an investor with a short-term need for both cash income and ready access to the invested capital.

From historical data we can quantify, monitor and manage the risk for different asset classes. We can estimate, for example, how the consolidated assets (equities, bonds and short-term money market securities) available to the Canada Pension Plan might perform relative to an equivalent-sized portfolio of risk-free bonds.

The following chart schematically shows the risk/return relationship for different asset classes. Real-return bonds are risk free because they guarantee a return above inflation. Venture capital is the most risky.

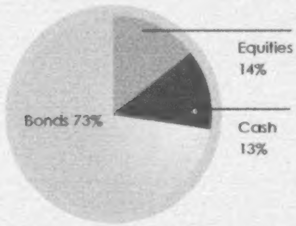
RELATIVE RISK / RETURN OF ASSET CLASSES



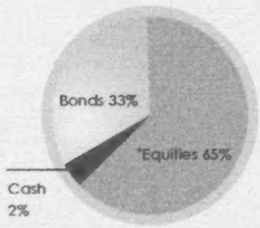
We have established a maximum risk tolerance ceiling for our equity portfolio to help determine the level of returns needed over the long haul to support the pension promise to Canadians. Our required real rate of return is measured above the risk-free performance base (the Scotia Capital Real Return Bond Index). At the start of fiscal 2002, our long-term minimum required real return was 5.2 percent, compared with the 4.0 percent real return assumption of the Chief Actuary.

As a rule, the more risk you assume, the greater the potential rewards.

ASSET MIX OF THE CPP INCLUDING THE CPP INVESTMENT BOARD



ASSET MIX OF TYPICAL PENSION FUND



*Includes real estate

ASSET MIX POLICY

A key decision affecting long-term returns is the allocation of funds between equities and fixed-income securities. In developing our asset mix policy, we take into consideration the Canada Pension Plan's bond portfolio and cash operating reserve.

On December 18, 1998 our directors adopted a policy of investing all cash inflows in equities to offset the dominance of the Canada Pension Plan's fixed-income securities and to diversify the assets available to the plan.

At the end of fiscal 2001, the equities held by the CPP Investment Board represented about 14 percent of the assets available to the Canada Pension Plan. If we continue to invest all cash flows in equities, they could constitute half the total available assets by the end of fiscal 2005 – still well below the equity allocation of most large public sector pension funds today.

INVESTMENT POLICY IMPLEMENTATION

Since inception, we have retained two fund managers to implement our investment policy by replicating pre-determined stock market indices. This is known as passive investing. Active investing involves decisions to add value above index returns or to reduce risk (as we did in fiscal 2001).

Our Canadian stock index fund mirrors the Toronto Stock Exchange 300 Composite Index, which represents about 87 percent of Canadian based companies listed on the TSE. Companies are selected for inclusion in the index by a committee of the Toronto Stock Exchange and Standard & Poor's, a New York-based company.

Our foreign equity index funds are the Standard & Poor's 500 Index of large companies in the United States and the MSCI EAFE Index of about 900 companies in Europe, Australia, New Zealand and the Far East. Companies are selected for inclusion in the EAFE index by the New York investment firm Morgan Stanley Capital International Inc. Both indices represent 73 percent of the combined market capitalization of 21 countries.

OUR EXPANSION INTO PRIVATE MARKET INVESTMENTS

To do better than equity index funds, we will actively manage a larger portion of assets and expand into private market investments in fiscal 2002.

Private market investments can take time to generate satisfactory returns. Lower returns and even losses are possible in the initial years, with gains appearing in later years. Structured appropriately, private market investments offer a superior risk-adjusted return over public equities and fixed-income securities. Our private equity target is to exceed the rate of inflation by 8 percentage points over a 10-year period.

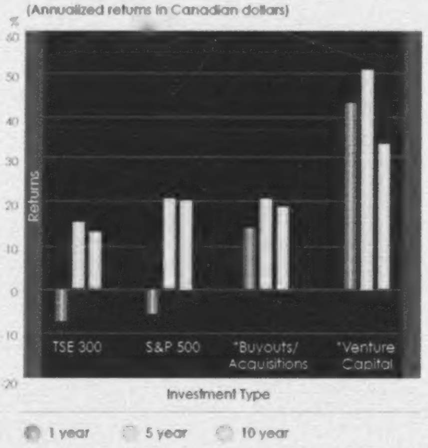
Private market investments include providing venture capital to early-stage companies, merchant banking investments in established companies with growth and expansion potential, and participation in corporate buyouts and acquisitions. Other private market investments include ownership in income-producing real estate properties or real estate companies, infrastructure projects, oil and gas properties, electrical power projects, and ownership interests in natural resources, such as mineral ore bodies and timberlands.

Our first priority is to invest in venture capital and buyout/acquisition opportunities. Real estate and infrastructure investments will be considered later in fiscal 2002 and direct investments in natural resources during fiscal 2003.

In fiscal 2002 we will invest in pooled funds, fund managers and merchant banks. We intend to form close relationships with these organizations as a preferred investor. We anticipate forming as many as 15 partner-like relationships in Canada, the United States and Europe, structured to achieve diversification by industry, geographic market, style of investing, and stage of maturity of the investee companies.

We may commit up to $1.8 billion to private equities to be invested over the next five years, for an investment of up to 10 percent of total assets.

PRIVATE EQUITIES VS. PUBLIC EQUITIES
(Annualized returns in Canadian dollars)



*Based on U.S. data as long-term Canadian data is not available

Over the long-term, private market investments should substantially outperform public equities.

PUBLIC EQUITY OPPORTUNITIES

We will enhance the returns from our equity index funds by, for example, taking advantage of extreme market under or over valuations, changes in the direction of the economy, and changes in interest rates. A variety of investment styles will be considered, including the active selection of individual stocks and the use of derivative products and currency management techniques.

TRANSITION TO DIVERSITY

The move from low-cost and efficient index investing to more complex strategies and asset classes will occur gradually. We are prepared to tolerate disappointing short-term returns since we are confident that the desired returns will materialize over the long term from private market investments, active investing in publicly traded securities and other asset classes, and alternative investment strategies.

RISK MANAGEMENT POLICIES

We have an enterprise-wide approach to risk management. Responsibility for specific risks is assigned to each committee of the board of directors with clear management accountability to those committees. The board has approved policies and procedures to manage and mitigate the organization's risks. Management is responsible for procedures, guidelines and other internal controls to address risks.

An annual audited report on internal control procedures is presented to the Audit Committee and the Investment Committee.

With respect to our investment activities, the goal of risk management is to avoid undue risk and to make sure we are compensated properly for risks taken. We measure investment risks for the total portfolio and attribute these risks to various elements of the total portfolio so that we can manage them and explain the reasons for material risk changes.

PROXY VOTING

Owning corporate shares provides the right to vote on management and shareholder proposals that could affect equity values. As a result, thoughtful voting can impact portfolio performance. Proxy voting rights have been delegated to our fund managers, who vote in accordance with policies and guidelines we have approved. They provide us with an annual report on how they did vote. In certain circumstances, we may exercise voting powers ourselves. As we become established, we will develop a strategy for creating value through thoughtful corporate governance initiatives.

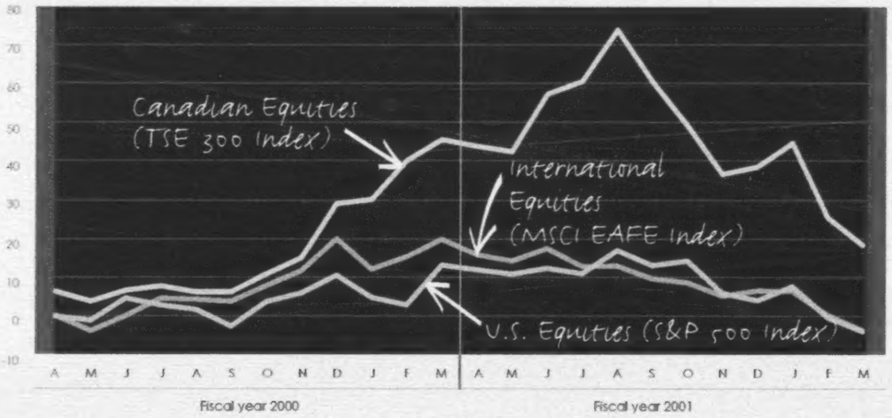
INVESTMENT PERFORMANCE

In fiscal 2001, we received $5.6 billion from the Canada Pension Plan and invested all of it in the shares of publicly traded companies. By year end, our portfolio was approximately 70 percent Canadian equities and 30 percent foreign equities.

MARKET OVERVIEW

The stock market correction that arrived mid-way through our fiscal year followed the excessive run-up in equity valuations, especially in technology stocks, during the 1990s. Many investors became "excessively exuberant" about companies involved in technological breakthroughs and new internet-based services that were beginning to re-shape and energize the global economy. Technology did in fact deliver impressive gains in productivity, especially in the United States, and accelerated economic growth. The trend to freer world trade and the convergence of corporations at the global level fed the euphoria and ever-rising equity valuations.

TWO YEAR PERFORMANCE OF MAJOR MARKETS
(% cumulative nominal return)



Stock markets corrected halfway through our most recent fiscal year.

The steepness and suddenness of the decline in equity values was not surprising after the strongest bull market in history. It also represented an opportunity for us to acquire equities at more reasonable prices. Market corrections are a natural behavioral pattern for equity markets. While they can be severe in the short term, they have limited negative impact over the long term for a large cash-positive investor putting funds into the market on a continuous basis.

CANADIAN EQUITY INVESTMENTS

During the first six months of fiscal 2001, our Canadian equities were restricted to passive investing. Since our inception, a federal regulation required us to substantially

replicate the composition of one or more broad market indices for investing in Canadian equities. We selected the TSE 300 Index of the Toronto Stock Exchange as the most diversified Canadian market index available.

In August 2000, the regulation was relaxed as the result of our request to the federal and provincial finance ministers. We can presently invest actively up to 50 percent of the assets we allocate to Canadian equities.

Following the regulatory change we implemented a risk management initiative to reduce our exposure to the heavy concentration of Nortel Networks in the TSE 300. By year end, we had reduced our maximum concentration in Nortel to approximately 4 percent and avoided about $535 million in losses.

TOP 20 CANADIAN SECURITIES AS AT MARCH 31, 2001

Security name	Fair value ($ millions)
Nortel Networks Corporation	289.9
BCE Inc.	212.3
Royal Bank of Canada	211.7
The Toronto-Dominion Bank	180.4
Bombardier Inc., Class "B" SV	161.5
Bank of Montreal	151.4
The Bank of Nova Scotia	147.2
Manulife Financial Corporation	146.2
Canadian Imperial Bank of Commerce	138.3
Alcan Inc.	132.2
Canadian Pacific Limited	131.4
Sun Life Financial Services of Canada Inc.	93.9
Canadian National Railway Company	83.0
Alberta Energy Company Ltd.	76.4
Petro-Canada	70.7
TransCanada PipeLines Limited	66.8
Suncor Energy Inc.	65.7
The Thomson Corporation	65.0
Barrick Gold Corporation	64.5
Talisman Energy Inc.	57.3

Canadian equity holdings are shares held directly and through mutual and pooled funds.

FOREIGN EQUITY INVESTMENTS

Outside Canada, our regulations permit us to invest actively or passively in any asset class. Our current policy is to invest in equity index funds that provide wide exposure to hundreds of companies in the United States, Europe and Asia.

We are required to adhere to the foreign property limit set by the federal government for pension funds and registered retirement savings plans. In February 2000, the government announced the limit would increase from 20 percent of assets (at cost) to 25 percent in calendar 2000 and 30 percent in calendar 2001.

We increased our portfolio's foreign content to the maximum permitted and ended fiscal 2001 with 70.1 percent of assets at cost invested in Canada and 29.9 percent in foreign securities, compared with 80.3 percent and 19.7 percent respectively a year earlier. On a market value basis, Canadian assets were 70.2 percent versus 81.7 percent a year earlier, and foreign assets were 29.8 percent compared with 18.3 percent in fiscal 2000.

Our policy of not hedging foreign currency generated additional gains as the Canadian dollar weakened during the year relative to the U.S. dollar. At year end, 15 percent of the total portfolio was invested in U.S. securities and 15 percent in international assets.

TOP 10 FOREIGN SECURITIES AS AT MARCH 31, 2001

($ in Canadian dollar equivalent)

Security name	Fair value ($ millions)	Country
General Electric Company	42.6	US
Microsoft Corporation	30.0	US
Exxon Mobil Corporation	29.0	US
Pfizer Inc.	26.5	US
BP Amoco PLC	25.6	UK
Vodafone Group PLC	24.2	UK
Citigroup INC	23.2	US
Wal-Mart Stores Inc.	23.2	US
GlaxoSmithKline PLC	22.3	UK
American International Group Inc.	19.3	US

Foreign equity holdings are shares held through pooled funds.

PERFORMANCE OBJECTIVES AND MEASUREMENTS

We believe that a variety of metrics over short, medium and long periods are necessary to provide a basis for making an informed judgment on performance. Currently, we compare our actual performance with:

- Our required return (discussed on page 10);
- The assumption of the Chief Actuary (page 10); and
- The total portfolio composite benchmark return, which aggregates various asset class indices according to their weight in our asset mix policy.

We calculate annual, medium and long-term rates of return for our total portfolio at least monthly, time weighted to conform with the standards of the Association for Investment Management and Research.

FISCAL 2001 RATES OF RETURN

In fiscal 2001, our total portfolio had a rate of return of minus 9.4 percent, compared with a positive 40.1 percent a year earlier. We have earned a 14.8 percent annualized return since making our first investment in March 1999. However, we incurred a net dollar loss over the period because the positive rate of return applied to a much smaller capital base in fiscal 2000 than the negative return impacted in fiscal 2001.

%	Fiscal year 2001	Fiscal year 2000	Annualized Since Inception
ACTUAL RESULTS			
Canadian equities	(7.7)	45.3	17.9
Foreign equities	(17.5)	16.6	0.7
Total portfolio	(9.4)	40.1	14.8
BENCHMARK RESULTS			
Canadian equities	(18.6)	45.5	10.9
Foreign equities	(18.2)	16.1	(0.4)
Total portfolio	(17.8)	39.3	9.1
Chief actuary's assumption	6.6	7.1	6.9
Long-term required return	7.9	8.9	8.5

FINANCIAL RESULTS

We received $5.6 billion in cash from the Canada Pension Plan in fiscal 2001 compared with $1.9 billion in the previous year.

The market value of investments at March 31, 2001 was $7.2 billion, of which $5 billion was invested in Canadian markets and the remainder in foreign markets. Our equity assets on March 31, 2001 represented almost 14 percent of the consolidated assets available to the Canada Pension Plan, including the plan's $42 billion (at estimated market value) fixed-income portfolio.

The net loss from operations was $852 million, compared with net income of $460 million in the prior year. Investment income consists of dividends, interest, distributions from pooled and mutual funds, and both realized and unrealized capital gains and losses. More than 90 percent of the fiscal 2001 loss occurred in our fourth quarter (January to March).

The fixed-income portfolio owned by the Canada Pension Plan earned an estimated $3.8 billion in fiscal 2001.

OPERATING EXPENSES

The CPP Investment Board incurred expenses of $6.7 million during the fiscal year, compared with $3.7 million in fiscal 2000. These expenses were approximately 11.7 basis points (or roughly 12 cents per $100 of invested assets) in fiscal 2001, compared with approximately 31.5 basis points in the prior year.

The dollar increase reflected the hiring of new staff as well as increased fees for external investment management, professional, consulting, and custodial services as our asset base and operations expanded. Investment management and administrative expenses will continue to rise in dollar terms as we increase our human resources and form partner-like relationships with external fund managers to implement a diversified investment strategy. These expenses will decline, however, as a percentage of assets. Our ongoing goal is to maximize net investment returns (i.e. after expenses) through organizational and operating efficiencies.

Investment income and administrative expenses are discussed further in note 8 to the financial statements commencing on page 24.

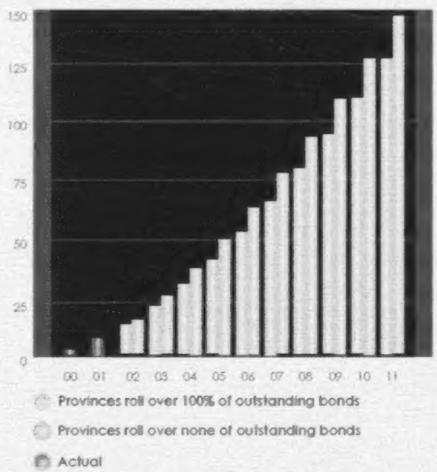
OUTLOOK

We expect our assets to grow steadily in the years ahead. During the next 10 years alone, the CPP Investment Board expects to receive $80 billion in cash from the Canada Pension Plan. The value of assets under our management is expected to exceed $130 billion by 2011.

Over the long term, we are confident that the total portfolio will produce returns that will meet or exceed those expected by the Chief Actuary and our long-term return target.

In looking to the future, we assume that public equity markets will remain volatile and that the level of returns during the next decade will be lower on an annualized basis than those achieved in the 1990s.

PROJECTED GROWTH IN ASSETS
($ billions) Based on fiscal years ended March 31



We also recognize that a faster pace of change, driven by technology and the integration of global capital markets, will demand innovation and flexibility to adapt to and take advantage of opportunities.

We expect to be managing assets worth more than $130 billion in 10 years.

GOVERNANCE

Governance practices by corporations and institutions continue to gain public prominence. Recent concerns include trading practices to influence the market price of securities, conflicts between the private interests of executives and their fiduciary obligations to others, selective disclosure of material information, executive compensation relative to corporate performance, and the effective management of financial, business and organizational risks.

To be effective, governance policies, procedures and practices must be part of a dynamic process involving regular review, clarification and enforcement.

OUR DISTINGUISHING FEATURES

Our governance is shaped by four features:

- we operate at arm's length from governments;
- we are solely an investment organization with no responsibility for administering the Canada Pension Plan;
- we focus on maximizing investment returns on the cash received from the Canada Pension Plan without undue risk of loss; and
- we report publicly through quarterly financial statements, an annual report, and public meetings in every participating province at least once every two years.

OUR RELATIONSHIP TO GOVERNMENTS

Independence from governments in making investment decisions is critical to our success and public confidence. We are a crown corporation created by federal legislation in 1997, and our investment and governance mandates are set out in the Canada Pension Plan Investment Board Act and related regulations.

The Canada Pension Plan is administered by the federal government. As joint stewards of the plan, the federal and provincial governments together set contribution rates, benefit levels and funding policy.

With respect to the CPP Investment Board, the federal and provincial finance ministers discuss changes to our legislation and regulations as part of their triennial review of the Canada Pension Plan. At their review in December 1999, they relaxed a restriction on our ability to invest in Canadian equities.

The federal finance minister, in consultation with the participating provinces, appoints our directors and is required to initiate a special examination of our financial and management control and information systems, and management practices, at least once every six years.

ARM'S LENGTH PROCESS FOR APPOINTING DIRECTORS

Good governance requires knowledgeable directors who understand their fiduciary duties, are not afraid to ask difficult questions, and are not beholden to those who nominate and appoint them.

Each government has one representative on a nominating committee of public officials and business leaders, with a private sector executive in the chair. The committee recommends candidates for appointment and re-appointment by the federal finance minister in consultation with provincial finance ministers. The founding directors were appointed in October 1998 and at that time our Chair was selected in consultation with the provinces and the directors.

Our legislation states that it is desirable to have sufficient directors with proven financial ability or work experience relevant to the goal of optimizing investment returns. As a result, the nominating committee recommended directors who predominantly have expertise in investment, business, economics and financial management.

EXPECTATIONS OF DIRECTORS

The directors are responsible for investment policies, standards and procedures, appointing an independent auditor, approving procedures to identify and resolve conflicts of interest, approving codes of conduct for directors, officers and employees, and monitoring and assessing management's performance. The board has a process for evaluating itself and is exploring the benefits and effectiveness of a peer-review process.

FOCUSING BOARD ACTIVITIES

Board work is assigned to committees, with recommendations referred to the full board for approval.

The Investment Committee consists of the full board because investing is the organization's raison d'être. In fiscal 2001, the committee reviewed and approved management's strategy to diversify risk and enhance returns by moving from passive to active investing. The committee duties include approving total portfolio investment policies and approving the engagement of external fund managers and asset custodians.

In fiscal 2001, the Audit Committee reviewed with management an enterprise-wide risk management framework that identified risks, established policies and procedures to mitigate them, and clarified the responsibilities of board committees and management for risk management. The Audit Committee also reviewed financial reporting and internal control policies and practices.

As we continue to hire senior staff, we will be recruiting successful individuals who may also have an important part of their net worth invested in capital markets. This raises challenges for our Human Resources and Compensation Committee in devising a competitive compensation policy to attract the best talents. It also raises challenges for our Governance Committee in dealing with real and potential conflicts between the personal investments of employees and their fiduciary duty to the CPP Investment Board. We believe the policies we have in place will serve us for the foreseeable future.

The Human Resources and Compensation Committee also completed an evaluation of the President and Chief Executive Officer's performance, and continues to monitor succession planning and organizational structure.

The Governance Committee's additional duties include recommending changes in our governance policy, guidelines, procedures and practices; making recommendations on the board's effectiveness; and monitoring the application of the code of conduct and conflict of interest guidelines for directors.

STRIVING FOR BEST GOVERNANCE PRACTICES

We measure our policies and procedures against our legislation and regulations and external guidelines.

Legislative and regulatory requirements are included in a system of internal controls that is reviewed annually by the external auditors.

We comply with the governance guidelines of the Toronto Stock Exchange for public companies, with the exception of the requirement for a board nominating committee as this is the responsibility of the committee appointed by the finance ministers.

We also comply with the governance principles developed by a task force of the Association of Canadian Pension Management, the Pension Investment Association of Canada, and Office of the Superintendent of Financial Institutions, with the exception of the qualifications for plan administrators as we have no plan administration duties.

SETTING HIGH STANDARDS OF CONDUCT

Directors, officers and employees acknowledge annually in writing our codes of conduct that are designed to create a corporate culture of trust, honesty and integrity. The codes deal with such matters as relations with suppliers, personal investments, the acceptance of gifts, the use and disclosure of information, representation on organizations and associations and confidentiality of third-party proprietary information.

MANAGING CONFLICTS OF INTEREST

We maintain strict conflict of interest procedures for directors, officers and employees to resolve potential conflicts between their private and business interests and the interests of the CPP Investment Board.

Officers and employees file quarterly with our external auditor a statement of the investments they hold and a report on transactions. During restricted trading periods, before making a trade, they notify our compliance officer to determine whether the securities in question are on our restricted list of securities. The pre-clearance requirement applies to securities in which officers and employees have a beneficial interest or over which they exercise direction or control. In certain cases they are not allowed to buy or sell securities on the restricted list.

Officers and employees disclose the identity of their investment agents, companies of which they are a director or employee, and trusts of which they are a trustee.

Directors complete and submit an annual disclosure of interest report for review by the Governance Committee and must notify the Chair before accepting a directorship or any position of authority in an entity that might benefit from, or be in conflict with, the CPP Investment Board.

BOARD OF DIRECTORS

CHAIRPERSON
GAIL COOK-BENNETT
Ontario
Economist; Former university professor and business executive.

MARY C. ARNOLD
Alberta
Chartered accountant; Senior member of Arnold Consulting Group Ltd.

DALE G. PARKER
British Columbia
Corporate director; Former president and CEO of Workers' Compensation Board of British Columbia.

GILBERT GILL
Newfoundland
Chartered Accountant; Former Deputy Minister of Finance for the Government of Newfoundland and Labrador.

M. JOSEPH REGAN
Ontario
Retired; Former Senior Executive Vice-President of the Royal Bank of Canada.

MONIQUE LEROUX
Quebec
Financial executive; Senior Executive Vice-President and Chief Operating Officer of Quebecor Inc.

HELEN SINCLAIR
Ontario
Financial executive; Founder and Chief Executive Officer of BankWorks Trading Inc.

JACOB LEVI
British Columbia
Actuary; Partner in Eckler Partners, actuarial consultants.

RICHARD M. THOMSON
Ontario
Retired; Former Chairman and CEO of the Toronto Dominion Bank.

HELEN M. MEYER
Ontario
Financial executive; President of Meyer Corporate Valuation Limited.

DAVID WALKER
Manitoba
President of West-Can Consultants Ltd.; Former Member of Parliament.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Canada Pension Plan Investment Board ("CPP Investment Board") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the contents of the financial statements and the financial information contained within the annual report.

The CPP Investment Board maintains records and develops and maintains systems of internal control and supporting procedures to provide reasonable assurance that the CPP Investment Board's assets are safeguarded and controlled and that transactions are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws, and the Statement of Investment Policies, Standards and Procedures.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the external auditors to discuss the scope and findings of audits and other work that the external auditors may be requested to perform from time to time, to review financial information, and to discuss the adequacy of internal controls. The Committee reviews and approves the annual financial statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

J. A. MacNaughton

JOHN A. MACNAUGHTON
President and Chief Executive Officer

Jane Nyman

JANE NYMAN
Vice President – Finance and Operations

INVESTMENT CERTIFICATE

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 2001, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Statement of Investment Policies, Standards and Procedures.

Mary C. Arnold

MARY C. ARNOLD

Chair of the Audit Committee on behalf of the Board of Directors, June 6, 2001

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS

We have audited the balance sheet and the statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2001 and the statements of income/(loss) and accumulated net income/(loss) from operations and of changes in net assets for the year then ended. These financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2001 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS

Toronto, Ontario, May 18, 2001

BALANCE SHEET

March 31, 2001 ($ 000's)	**2001**	2000
ASSETS		
Investments (Note 2)		
Canadian equities	**$ 5,024,457**	$ 1,954,372
Non-Canadian equities	**2,130,419**	438,389
TOTAL INVESTMENTS	**7,154,876**	2,392,761
Cash and short-term investments	**546**	1,022
Other assets (Note 3)	**921**	1,080
TOTAL ASSETS	**7,156,343**	2,394,863
LIABILITIES		
Accounts payable and accrued liabilities (Note 4)	**2,174**	3,070
TOTAL LIABILITIES	**2,174**	3,070
NET ASSETS	**$ 7,154,169**	$ 2,391,793
NET ASSETS, REPRESENTED BY		
Share capital (Note 5)	**$ —**	$ —
Accumulated net income/(loss) from operations	**(391,252)**	460,338
Canada Pension Plan transfers (Note 6)	**7,545,421**	1,931,455
NET ASSETS	**$ 7,154,169**	$ 2,391,793

On behalf of the Board of Directors:

Mary C. Arnold

MARY C. ARNOLD
Chair of the Audit Committee

M. JOSEPH REGAN
Director, Member of the Audit Committee

STATEMENT OF INCOME/(LOSS) AND ACCUMULATED NET INCOME/(LOSS) FROM OPERATIONS

Year ended March 31, 2001 ($ 000's)	**2001**	2000
INVESTMENT INCOME/(LOSS) (Note 7)		
Canadian equities	**$ (532,109)**	$ 424,603
Non-Canadian equities	**(312,746)**	39,183
	(844,855)	463,786
INVESTMENT AND ADMINISTRATIVE EXPENSES (Note 8)		
Operating expenses	**2,279**	1,450
Salaries and benefits	**1,963**	1,003
External investment management fees	**1,535**	342
Professional and consulting fees	**958**	855
	6,735	3,650
NET INCOME/(LOSS) FROM OPERATIONS	**(851,590)**	460,136
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR	**460,338**	202
ACCUMULATED NET INCOME/(LOSS) FROM OPERATIONS, END OF YEAR	**$ (391,252)**	$ 460,338

STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31, 2001 ($ 000's)	**2001**	2000
NET ASSETS, BEGINNING OF YEAR	**$ 2,391,793**	$ 12,144
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 6)	**5,613,966**	1,919,513
Net income/(loss) from operations	**(851,590)**	460,136
INCREASE IN NET ASSETS FOR THE YEAR	**4,762,376**	2,379,649
NET ASSETS, END OF YEAR	**$ 7,154,169**	$ 2,391,793

STATEMENT OF INVESTMENT PORTFOLIO

	Fair Value of Investments		% of Portfolio	
March 31, 2001 ($ 000's)	**2001**	2000	**2001**	2000
CANADIAN EQUITIES (Note 2)				
Canadian Equities – TSE 300				
(Combination of index funds and direct security investments that substantially replicate the TSE 300)	**$ 3,057,054**	$ 1,954,372	**42.7%**	81.7%
Other Canadian Equities				
(Diversified portfolio of pooled fund and direct security investments (Note 2))	**1,967,403**	—	**27.5%**	0.0%
TOTAL CANADIAN EQUITIES				
(Cost 2001 – $5,635,082; 2000 – $1,633,029)	**5,024,457**	1,954,372	**70.2%**	81.7%
NON-CANADIAN EQUITIES (Note 2)				
US Equity Index Fund – S&P 500	**1,069,852**	219,956	**15.0%**	9.2%
EAFE Equity Index Fund	**1,060,567**	218,433	**14.8%**	9.1%
TOTAL NON-CANADIAN EQUITIES				
(Cost 2001 – $2,407,243; 2000 – $400,185)	**2,130,419**	438,389	**29.8%**	18.3%
TOTAL INVESTMENTS	**$ 7,154,876**	$ 2,392,761	**100.0%**	100.0%

NOTES TO THE FINANCIAL STATEMENTS

ORGANIZATION

The Canada Pension Plan Investment Board (the "CPP Investment Board") was formed pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (the "CPP") and the ability of the CPP to meet its financial obligations.

The CPP Investment Board has a fiscal year end of March 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

These financial statements present the financial position and operations of the CPP Investment Board as a separate legal entity, and therefore include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

(B) VALUATION OF INVESTMENTS

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Market prices for securities and unit values for pooled and mutual funds are used to represent fair value for the investments. Unit values reflect the quoted market prices of the underlying securities. Short-term investments are valued at cost plus accrued income, which approximates fair value.

(C) INCOME RECOGNITION

Investment income is recorded on the accrual basis and represents realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the year, dividend income, interest income, and distributions from mutual and pooled funds.

Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the change in the difference between fair value and cost of investments at the beginning and end of each year.

(D) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at the year end are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses are included in investment income.

(E) CANADA PENSION PLAN TRANSFERS

Amounts received from the CPP are recorded on a cash basis.

(F) INCOME TAXES

The CPP Investment Board is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty in right of Canada.

(G) USE OF ESTIMATES

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results could differ from these estimates.

2. INVESTMENTS

The statement of investment portfolio provides detailed information on the investments held as at March 31, 2001.

(A) INVESTMENT POLICY

The CPP Investment Board has established a Statement of Investment Policies, Standards and Procedures (the "Investment Policy") which sets out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board must take into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2001, these assets totalled approximately $36.0 billion (at cost) and consisted primarily of government debt obligations. As a result, and in accordance with the Investment Policy, 100% of the CPP Investment Board's investments are allocated to equities, with at least 70% of the book value allocated to Canadian equities and the remainder to non-Canadian equities.

The regulations governing the CPP Investment Board allow the active management of up to 50% of Canadian equities, on a book value basis. The regulations restrict the remaining investments in Canadian equities to substantially replicate the composition of one or more broad market indices. As at March 31, 2001, approximately 64% of Canadian equity investments, on a book value basis, substantially replicated the Toronto Stock Exchange 300 Composite Index.

Under the terms of the Investment Policy, investments in non-Canadian equities should substantially replicate broad market indices. Non-Canadian investments are held in funds that substantially replicate the Morgan Stanley Capital International ("MSCI") EAFE Index and the Standard & Poor's ("S&P") 500 Index. Investments are not hedged against changes in foreign currency exchange rates.

(B) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates or exchange rates.

As outlined in the Investment Policy, certain derivatives may be used to achieve market exposure by replicating direct investments in a relevant equity index, provided that the derivatives are not used to create leverage. The mutual and pooled funds in which the CPP Investment Board owns units are permitted to, and may from time to time, use derivatives subject to this constraint. Other than through such funds, the CPP Investment Board has not directly entered into derivative contracts during the year ended March 31, 2001.

(C) FOREIGN CURRENCY EXPOSURE

The CPP Investment Board is exposed to currency risk through holdings of units in pooled funds of non-Canadian equities where investment values will fluctuate due to changes in foreign exchange rates. The underlying currency exposures by geographical area as at March 31, 2001 were as follows:

($ 000's)	**2001**		2000	
Country/Region	**Fair Value**	**% of Total**	Fair Value	% of Total
United States	**$ 1,069,852**	**50%**	$ 219,956	50%
Europe	**743,059**	**35%**	145,796	34%
Far East	**287,063**	**14%**	67,454	15%
Australia and New Zealand	**30,445**	**1%**	5,183	1%
	$ 2,130,419	**100%**	$ 438,389	100%

In accordance with the Investment Policy, foreign currency exposures are not hedged.

3. OTHER ASSETS

Other assets consisted of the following:

($ 000's)	**2001**	2000
Pending trades	**$ —**	$ 533
Dividends receivable	**493**	384
Fixed assets	**261**	141
Other assets	**167**	22
	$ 921	$ 1,080

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

($ 000's)	**2001**	2000
Pending trades	**$ —**	$ 1,801
Other accounts payable and accrued liabilities	**2,174**	1,269
	$ 2,174	$ 3,070

5. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares having a par value of $10 each. The shares are owned by Her Majesty in right of Canada.

6. CANADA PENSION PLAN TRANSFERS

Section 111 of the *Canada Pension Plan* provides for the transfer to the CPP Investment Board of funds not required by the CPP to pay current pensions. These funds come from both employer and employee contributions to the CPP, as well as from the proceeds of maturing and redeemed government bonds held in a portfolio administered by the federal government. During the year, a total of $5,613,966,000 (2000 – $1,919,513,000) was transferred to the CPP Investment Board. Since the CPP Investment Board's inception, $7,545,421,000 has been received from the CPP.

7. INVESTMENT INCOME/(LOSS)

(A) INVESTMENT INCOME/(LOSS) FOR THE PERIOD

Investment income / (loss) consisted of the following:

($ 000's)	**2001**	2000
CANADIAN EQUITIES		
Unrealized gains / (losses)	**$ (931,968)**	$ 321,159
Fund distributions of capital gains and dividends	**213,298**	9,000
Realized gains	**180,277**	89,355
Other investment income	**6,284**	5,089
	(532,109)	424,603
NON-CANADIAN EQUITIES		
Unrealized gains / (losses)	**(315,028)**	38,213
Fund distributions of capital gains and dividends	**—**	281
Realized gains / (losses)	**(99)**	286
Other investment income	**2,381**	403
	(312,746)	39,183
TOTAL INVESTMENT INCOME / (LOSSES)	**$ (844,855)**	$ 463,786

In implementing its market replication strategy, the CPP Investment Board utilizes index funds. In instances where a large dollar value of index fund units is to be purchased, the CPP Investment Board initially purchases individual securities that make up the index. The securities are then transferred to the index fund in exchange for units in the fund. On transfer, a gain or loss may be realized representing the difference between the market price of the securities at the time of the transfer and their original cost.

(B) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

	2001		2000	
	Portfolio Returns	**Benchmark Returns**	Portfolio Returns	Benchmark Returns
Canadian equities	**(7.7%)**	**(18.6%)**	45.3%	45.5%
Non-Canadian equities	**(17.5%)**	**(18.2%)**	16.6%	16.1%
Total portfolio	**(9.4%)**	**(17.8%)**	40.1%	39.3%

The CPP Investment Board uses a variety of metrics over the short, medium and long term to make an informed judgment about investment performance. Benchmark returns are used to measure investment performance relative to the return of the broad markets in which the CPP Investment Board invests: the TSE 300 for Canadian equities, the S&P 500 (MSCI U.S. to November 2000) and the MSCI EAFE for non-Canadian equities.

The total return composite benchmark aggregates the asset class benchmark returns according to the asset mix policy weights specified in the Investment Policy.

Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research.

8. INVESTMENT AND ADMINISTRATIVE EXPENSES

(A) OPERATING EXPENSES

Operating expenses consisted of the following:

($ 000's)	**2001**	2000
Communication expenses	**$ 700**	$ 364
Directors' remuneration	**376**	269
Custodial fees	**281**	140
Office supplies and equipment	**252**	179
Occupancy costs	**237**	231
Travel and accommodation for directors' meetings	**129**	100
Other operating expenses	**304**	167
	$ 2,279	$ 1,450

Communication expenses for fiscal 2001 include expenditures in respect of public meetings required by legislation and held across the country in January 2001.

Directors' remuneration includes an annual retainer for each director of $12,000, board and committee meeting fees of $900 per meeting, plus an additional annual retainer of $3,000 for each committee chair. (Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the usual custom.) The Chair also receives $32,000 in additional annual compensation for the position of Chair of the Board of Directors but is not eligible to receive the $3,000 retainer paid to committee chairs.

Directors of the CPP Investment Board come from various regions of the country and accordingly they incur travel and accommodation expenses in attending meetings of the board

and committees. In fiscal 2001, 14 board and investment committee meetings and 17 committee meetings were held.

(B) EXECUTIVE COMPENSATION

Compensation earned by executive officers of the CPP Investment Board during fiscal 2001 amounted to $ 1,214,697 (2000 - $ 422,931). Included in this total are the following amounts:

Employee	Year	Salary	Annual Bonus[5]	Long-Term Bonus[5]	Benefits[6]
John A. MacNaughton[1]	2001	$ 350,000	$ 175,000	$ 30,490	$ 50,406
President and Chief Executive Officer	2000	$ 201,923	$ 100,962	—	$ 4,256
Valter Viola[2]	2001	$ 109,846	$ 74,695	—	$ 7,303
Vice President – Research and Risk Management	2000	$ —	$ —	—	$ —
Jane Nyman[3]	2001	$ 101,231	$ 49,603	$ 4,952	$ 15,501
Vice President – Finance and Operations	2000	$ 78,077	$ 37,589	—	$ 124
Mark Weisdorf[4]	2001	$ 85,385	$ 68,308	—	$ 9,206
Vice President – Private Market Investments	2000	$ —	$ —	—	$ —

[1] Commenced employment on September 7, 1999.
[2] Commenced employment on August 9, 2000. In addition to the amounts noted herein, Mr. Viola was paid $50,000 upon commencement of employment representing compensation foregone from his previous employer.
[3] Commenced employment on September 13, 1999. Fiscal 2001 salary represents 8½ months of compensation.
[4] Commenced employment on October 16, 2000.
[5] Bonus awards include an annual and a long-term component and are based on the achievement of agreed objectives. The long-term bonus, which is paid out over a three year period, reflects amounts payable for the current year.
[6] Benefits include pension contributions in connection with a defined contribution registered pension plan and supplemental executive retirement plan, life insurance, club dues, and other miscellaneous non-cash remuneration.

(C) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consisted of the following:

($ 000's)	**2001**	2000
Consulting	**$ 532**	$ 626
Legal	**225**	124
Professional accounting and audit	**201**	105
	$ 958	$ 855

Consulting fees represent amounts paid for professional assistance in connection with items such as strategic planning, governance matters, executive search, and other human resource related matters.

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current presentation.

CORPORATE INFORMATION

BOARD OF DIRECTORS AND INVESTMENT COMMITTEE

Gail Cook-Bennett *(Chair)*
Mary C. Arnold
Gilbert Gill
Monique Leroux
Jacob Levi
Helen M. Meyer
Dale G. Parker
M. Joseph Regan
Helen Sinclair
Richard M. Thomson
David Walker

OFFICERS

John A. MacNaughton, *President and Chief Executive Officer*
Jane Beatty, *Vice President – General Counsel and Corporate Secretary (appointment effective June 11, 2001)*
Jane Nyman, *Vice President – Finance and Operations*
Valter Viola, *Vice President – Research and Risk Management*
Mark A. Weisdorf, *Vice President – Private Market Investments*

AUDIT COMMITTEE

Mary C. Arnold *(Chair)*
Gilbert Gill
Jacob Levi
Helen M. Meyer
M. Joseph Regan

HUMAN RESOURCES AND COMPENSATION COMMITTEE

Richard M. Thomson *(Chair)*
Gail Cook-Bennett
Helen M. Meyer
M. Joseph Regan
David Walker

GOVERNANCE COMMITTEE

Dale G. Parker *(Chair)*
Gail Cook-Bennett
Monique Leroux
Jacob Levi
Helen Sinclair

Ce rapport annuel est aussi
disponable en français

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